



WFDD-FM RADIO
(A Public Telecommunications Entity Operated by Wake Forest University)

Financial Statements

June 30, 2006

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 700
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Greensboro, NC 27401

Independent Auditors' Report

The Board of Trustees
Wake Forest University:

We have audited the accompanying statements of financial position of WFDD-FM Radio, a public telecommunications entity operated by Wake Forest University (WFDD), as of June 30, 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of WFDD. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from WFDD's 2005 financial statements and in our report dated September 9, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures, that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WFDD's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WFDD as of June 30, 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

October 31, 2006

WFDD-FM RADIO
(A Public Telecommunications Entity Operated by Wake Forest University)

Statements of Financial Position
June 30, 2006
(with comparative financial information as of June 30, 2005)

| Assets | 2006 | 2005 |
|----------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Cash | \$ 259,284 | 341,272 |
| Accounts receivable (net of allowance for doubtful accounts of \$9,619 and \$9,924 at June 30, 2006 and 2005, respectively) | 22,445 | 52,300 |
| Contributions receivable (net of allowance for doubtful accounts of \$6,669 and \$9,036 at June 30, 2006 and 2005, respectively) | 15,560 | 21,084 |
| Property and equipment: | | |
| Land | 144,200 | 144,200 |
| Studio improvements | 754,099 | 754,099 |
| Transmission, antenna and tower equipment | 280,303 | 280,303 |
| Studio and broadcast equipment | 422,351 | 257,521 |
| Office equipment | 13,829 | 13,829 |
| Record library | 22,297 | 22,297 |
| Total property and equipment | 1,637,079 | 1,472,249 |
| Less accumulated depreciation | (998,080) | (957,804) |
| Net property and equipment | 638,999 | 514,445 |
| Total assets | \$ 936,288 | 929,101 |
| Liabilities and Net Assets | | |
| Accounts payable and accruals | \$ 33,287 | 13,877 |
| Other liabilities | 119 | 4,499 |
| Deferred revenue (note 2) | 93,205 | 70,517 |
| Due to Wake Forest University (note 4) | 26,142 | 26,142 |
| Total liabilities | 152,753 | 115,035 |
| Net assets - | | |
| Unrestricted | 740,898 | 790,855 |
| Temporarily restricted (note 6) | 42,637 | 23,211 |
| Total net assets | 783,535 | 814,066 |
| Total liabilities and net assets | \$ 936,288 | 929,101 |

See accompanying notes to financial statements.

WFDD-FM RADIO
(A Public Telecommunications Entity Operated by Wake Forest University)

Statements of Activities

Year ended June 30, 2006

(with summarized financial information as of June 30, 2005)

| | 2006 | | | 2005 |
|-----------------------------------------------------------------------------------|---------------------|-----------------------------------|------------------|------------------|
| | Unrestricted | Temporarily restricted | Total | |
| Revenues: | | | | |
| General appropriation from Wake Forest University | \$ 74,782 | — | 74,782 | 16,612 |
| Underwriting | 473,100 | — | 473,100 | 498,632 |
| Contributions and fund-raising projects | 539,349 | 35,000 | 574,349 | 571,211 |
| Donated personal services of volunteers | 1,179 | — | 1,179 | 1,912 |
| Donated facilities and administrative support from Wake Forest University | 417,971 | — | 417,971 | 321,612 |
| Community service grants from the Corporation for Public Broadcasting (note 2) | 184,841 | — | 184,841 | 169,881 |
| In-kind contributions | 95,655 | — | 95,655 | 96,840 |
| Other income | 92,225 | — | 92,225 | 18,011 |
| Total revenues | <u>1,879,102</u> | <u>35,000</u> | <u>1,914,102</u> | <u>1,694,711</u> |
| Net assets released from restrictions | <u>15,574</u> | <u>(15,574)</u> | <u>—</u> | <u>—</u> |
| Total revenues | <u>1,894,676</u> | <u>19,426</u> | <u>1,914,102</u> | <u>1,694,711</u> |
| Expenses: | | | | |
| Program services: | | | | |
| Programming and production | 1,158,484 | — | 1,158,484 | 1,085,776 |
| Broadcasting | 59,052 | — | 59,052 | 68,036 |
| Supporting services: | | | | |
| Fundraising | 285,538 | — | 285,538 | 159,779 |
| Management and general | 260,460 | — | 260,460 | 233,979 |
| Underwriting and grant solicitation | 181,099 | — | 181,099 | 170,510 |
| Total expenses | <u>1,944,633</u> | <u>—</u> | <u>1,944,633</u> | <u>1,718,080</u> |
| Change in net assets | (49,957) | 19,426 | (30,531) | (23,369) |
| Net assets at beginning of year | <u>790,855</u> | <u>23,211</u> | <u>814,066</u> | <u>837,435</u> |
| Net assets at end of year | <u>\$ 740,898</u> | <u>42,637</u> | <u>783,535</u> | <u>814,066</u> |

See accompanying notes to financial statements.

WFDD-FM RADIO
(A Public Telecommunications Entity Operated by Wake Forest University)

Statements of Cash Flows

Year ended June 30, 2006

(with comparative financial information for the year ended June 30, 2005)

| | <u>2006</u> | <u>2005</u> |
|-------------------------------------------------------------------------------------------------------|-------------------|-----------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (30,531) | (23,369) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation expense | 40,276 | 19,261 |
| Change in assets or liabilities: | | |
| Accounts receivable | 29,855 | (23,642) |
| Contributions receivable | 5,524 | (211) |
| Accounts payable and accruals | 19,410 | (7,422) |
| Other liabilities | (4,380) | 1,443 |
| Deferred revenue | 22,688 | 32,241 |
| Net cash provided by (used in) operating activities | <u>82,842</u> | <u>(1,699)</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | <u>(164,830)</u> | <u>(48,196)</u> |
| Net cash used in investing activities | <u>(164,830)</u> | <u>(48,196)</u> |
| Net change in cash | (81,988) | (49,895) |
| Cash at beginning of year | <u>341,272</u> | <u>391,167</u> |
| Cash at end of year | <u>\$ 259,284</u> | <u>341,272</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for interest to related party (WFU) | <u>\$ 1,699</u> | <u>1,699</u> |

See accompanying notes to financial statements.

WFDD-FM RADIO

(A Public Telecommunications Entity Operated by Wake Forest University)

Notes to Financial Statements

June 30, 2006

(1) Significant Accounting Policies

(a) *Description of Entity*

WFDD is a public telecommunications entity operated by Wake Forest University. The entity operates a classical music/fine arts radio station in the Greater Winston-Salem area.

(b) *Basis of Accounting*

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of WFDD and changes therein are classified and reported as follows:

- Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met either by actions of WFDD and/or the passage of time.

Revenues are reported as increases in unrestricted net assets unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

Deferred revenue includes unearned underwriting fees and the unrealized portion of the grant from the Corporation for Public Broadcasting. Grants from the Corporation for Public Broadcasting are recorded as deferred revenue and are recognized as revenue over the period stipulated by the grantor (see note 2).

WFDD-FM RADIO

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Notes to Financial Statements

June 30, 2006

(c) *Property and Equipment*

Property and equipment are recorded at cost or, in the case of donated property, at the estimated fair value at date of receipt. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful life for studio improvements and the estimated useful lives for other equipment range between 5 and 40 years. Expenditures for repairs and maintenance are charged to operating expense as incurred.

(d) *In-Kind Contributions*

In-kind contributions are recorded as revenue and expense in the statements of activities at estimated fair value.

(e) *Donated Facilities and Administrative Support*

Donated facilities from Wake Forest University (the University) consist of office and studio space together with related occupancy costs and are recorded in revenues and expenses at estimated fair rental values. Administrative support from the University consists of costs and expenses incurred on behalf of the station.

(f) *Functional Expense Classification*

In accordance with not-for-profit accounting standards, expenses are reported in the statements of activities in functional categories. WFDD's primary program services are broadcasting and programming and production. Expenses reported as fundraising, management and general, and underwriting and grant solicitation are incurred in support of the primary program services.

(g) *Use of Estimates*

Management of WFDD has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(h) *Reclassifications*

In certain instances, amounts previously reported in the 2005 financial statements have been reclassified to conform to the 2006 presentation. Such reclassifications have no effect on the change in net assets as previously reported.

WFDD-FM RADIO

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Notes to Financial Statements

June 30, 2006

(2) Deferred Revenue – Grant by the Corporation for Public Broadcasting

Changes in the grant by the Corporation for Public Broadcasting consist of the following at June 30:

| | <u>2006</u> | <u>2005</u> |
|--------------------------------------------------|------------------|------------------|
| Balance at beginning of year | \$ 43,869 | 38,276 |
| Additions: | | |
| Grant by the Corporation for Public Broadcasting | 187,962 | 175,474 |
| Deductions: | | |
| Grants recognized as revenue | <u>(184,841)</u> | <u>(169,881)</u> |
| Balance at end of year | <u>\$ 46,990</u> | <u>43,869</u> |

(3) Income Taxes

WFDD-FM Radio is operated by the University, a not-for-profit corporation, which is exempt from federal income taxes on related income under Internal Revenue Code Section 501(c)(3).

(4) Due to Wake Forest University

The amount due to the University is due on demand and bears interest at an annual rate of 6.5%. Interest expense was \$1,699 and \$1,699 in 2006 and 2005, respectively, which is included in management and general expense in the statements of activities.

(5) Benefit Plans

WFDD's employees are eligible to participate in the University's defined contribution benefit plan. In addition, the University sponsors a defined benefit postretirement medical and dental plan that covers all of its full-time employees (including WFDD employees) who elect coverage and satisfy the plan's eligibility requirements when they retire.

It is not possible to present separately the employer contributions under the defined contribution benefit plan or to present separately the net postretirement benefit cost or the actuarially determined accumulated benefit obligation for WFDD for the postretirement medical and dental plan because no determination has been made of the allocation of such amounts between the University and WFDD.

(6) Temporarily Restricted Net Assets

At June 30, 2006, temporarily restricted net assets of \$42,637 consist of gifts to WFDD that will be used to expand operations.